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PINE HILLS SCHOOL

Report on Examination of Financial Statements

Conducted Under Contract by Holmes and Turner
Certified Public Accountants

For The Fiscal Year Ended June 30, 1980

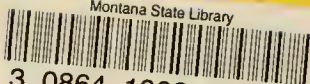
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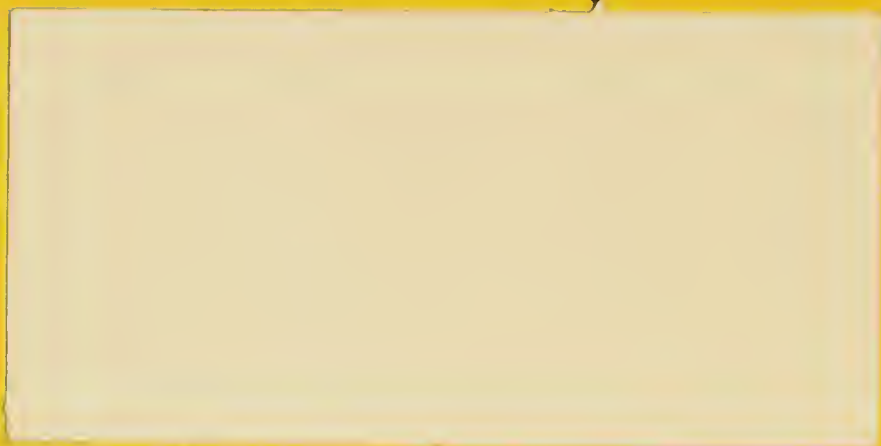
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STATE OF MONTANA

PINE HILLS SCHOOL

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Certified Public Accountants

For The Fiscal Year Ended June 30, 1980



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Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122



MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

October 1980

ELLEN FEAVER, C.P.A.
DEPUTY LEGISLATIVE AUDITOR

JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Pine Hills
School for the year ended June 30, 1980.

The audit was conducted by Holmes and Turner, C.P.A.'s, under a
contract between the firm and our office. The comments and
recommendations contained in this report represent the views of the
firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Morris L. Brusett".

Morris L. Brusett, C.P.A.
Legislative Auditor

PINE HILLS SCHOOL

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SCHEDULE OF ADMINISTRATIVE OFFICIALS

DEPARTMENT OF INSTITUTIONS

Lawrence M. Zanto Director

James L. Haubein Administrator
Management Services Division

PINE HILLS SCHOOL

Allan Davis Superintendent

Leon Bridge Director
Administrative Services

Roger Seeley Director
Care and Custody

Bud Lee Director
Developmental Services

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full reply of the Pine Hills School is included in the back of this report.

Page

Institution place all of the non-treasury cash accounts, with the exception of the Trust Fund and Savings Account, under the control of SBAS. In addition, that all boys funds unclaimed for a period of seven years be transferred to the Department of Revenue.

5

Agency Reply: Concur. See page 33.

Re-evaluate requirements for non-treasury bank accounts and obtain the necessary approvals from the Department of Administration, Accounting Division, Treasury Division and the Investment Board for those accounts which are still deemed appropriate.

6

Agency Reply: Concur. See page 33.

Department of Institutions review the various funds maintained by the agency and determine which funds should be established on SBAS.

6

Agency Reply: Concur. See page 33.

Institution segregate the reconciliation procedures of non-treasury accounts from the employees who process the cash receipts and disbursements of the various funds.

7

Agency Reply: Concur. See page 34.

Individuals responsible for signing checks from non-treasury bank accounts do not sign blank checks.

7

Agency Reply: Concur. See page 34.

Institution adequately document and support all expenditures made from the non-treasury bank accounts.

7

Agency Reply: Concur. See page 34.

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
<i>Institution contact the Department of Administration to establish general ledger controls over inventories.</i>	8
<u>Agency Reply:</u> Concur. See page 34.	
<i>Institution implement a system of property control and accountability which identifies assets, accounts for additions and deletions, and records transfers of location.</i>	9
<u>Agency Reply:</u> Concur. See page 34.	
<i>Institution establish general ledger (SBAS) control for fixed assets and periodically reconcile the control totals to physical inventories.</i>	9
<u>Agency Reply:</u> Concur. See page 35.	
<i>Review unused farm buildings for their potential use and related costs to place them in usable condition.</i>	10
<u>Agency Reply:</u> Concur. See page 35.	
<i>Review personnel files and update each employee's payroll status forms.</i>	11
<u>Agency Reply:</u> Concur. See page 35.	
<i>Institution perform the various reconciliation procedures as suggested by the Legislative Auditor in his application review of the Central Payroll Division.</i>	11
<u>Agency Reply:</u> Concur. See page 35.	
<i>Maintain longevity records and an employee position register on a current basis.</i>	11
<u>Agency Reply:</u> Concur. See page 36.	
<i>Review its system of accounting for employee leave and consider utilizing the standardized system established by the Department of Administration.</i>	12
<u>Agency Reply:</u> Concur. See page 36.	

SUMMARY OF RECOMMENDATIONS (Continued)

Page

Determine which system of accounting for employee leave best fits their circumstances and update their records and procedures to assure that employee leave is properly accounted for.

12

Agency Reply: Concur. See page 36.

Review accrued vacation time for each employee and determine if the accrual exceeds the maximum allowed under State law.

13

Agency Reply: Concur. See page 36.

Adopt a formal policy to notify each employee who may be in jeopardy of forfeiting excess vacation accruals.

13

Agency Reply: Concur. See page 36.

Initiate a policy of voiding travel voucher receipts upon payment of the claim.

13

Agency Reply: Does Not Concur. See page 37.

COMMENTS

INTRODUCTION AND BACKGROUND

The Pine Hills School was established in 1893 as the Montana State Industrial School. The function of the institution is the individualized care, education, training, treatment and rehabilitation of youth who are committed by the courts of Montana. Pine Hills School serves male students between 10-21 years of age by providing both long-term residential care and predispositional 45-day evaluations.

The activities at Pine Hills School are divided into several major programs. This includes the Superintendent program which is designed to account for the costs related to the personal services provided by the superintendent.

The Medical Services program provides medical and psychological treatment to the residents. These services are provided by trained staff persons or through contracted medical specialists.

The Administration program is responsible for the overall operation, supervision and maintenance of the institution. It provides for physical plant maintenance, general business administration, and warehouse operations.

The Care and Custody program primarily accounts for the personal services required to provide an organized group living atmosphere. This includes the supervision of cottage life, recreation and security.

The Developmental Services program provides diagnostic and treatment programs for individual youth. This program also provides religious worship, counseling, academic training, vocational trainings, and a community services program designed to give the resident actual work experience within the community.

Prior to fiscal year 1979-80, the school operated a farm which provided meats, dairy and garden vegetables for consumption by the institutional population. In addition, the farm activity provided the students with an opportunity for a structured work program in agriculture. Over the past several years the farm activity has decreased in its effectiveness to produce the needed items for the institution. As a result, the farm operation was discontinued in May 1979.

Pine Hills School employs approximately 125 employees and expends approximately \$2.3 million per year for the benefit of approximately 80 to 100 residents.

We performed a financial/compliance audit of Pine Hills School for the fiscal year ended June 30, 1980. The objectives of the audit were to (1) determine if the agency's financial statements present fairly its financial position and results of operations for the fiscal year ended June 30, 1980; (2) determine if the agency complied with applicable laws and regulations; (3) make recommendations for the improvement in the management and internal controls of the agency. Our examination was not intended to review the economy and efficiency of the agency, nor did we attempt to determine whether the desired results or benefits were achieved by the various programs.

PRIOR AUDIT REVIEW

The last audit of Pine Hills School was conducted for the two fiscal years ended June 30, 1977. The audit report contained 17 recommendations designed to strengthen the internal controls of the agency. At that

time, the agency concurred with 14 of these recommendations and did not concur with three.

We reviewed the prior audit recommendations to determine what action has been taken by the agency in regard to the area of financial/compliance weaknesses noted in the prior audit report. Our examination determined that the agency has taken no action in regard to the three recommendations in which they did not concur. These recommendations pertained to the methods used for charging expenditures to the federal and private revenue fund, non-treasury bank accounts maintained outside SBAS and travel advances.

Further evaluation indicated that the agency has taken corrective action for all of the remaining recommendations except for those associated with property control and accountability. Corrective action which has been taken includes; (1) segregation of duties among inventory clerks; (2) approvals of invoices prior to payment; (3) monthly inventories; (4) improved personnel files; (5) disposition of obsolete items; (6) other minor improvements designed to strengthen the agency's internal controls.

INTERNAL CONTROL

As part of our examination we reviewed and tested the agency's system of internal control to establish a basis for reliance thereon in determining the nature, timing, and extent of other auditing procedures necessary for expressing an opinion on the financial statements and to assist in planning and performing our examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial

records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgements by management.

Our study and evaluation of the agency's system of internal accounting control for the fiscal year ending June 30, 1980 would not necessarily disclose all weaknesses in the system because it was based upon selective tests of accounting records and related data. Except for property, plant and equipment, and employee leave, we found no material internal control weaknesses. Report comments following relate to management problems, other internal control weaknesses, and department noncompliance with applicable statutes.

CASH ACCOUNTS

Pine Hills School' currently maintains four separate checking accounts, and one savings account outside of the State Treasury. The checking accounts were last approved in 1973 and were authorized to account for the following transactions:

Transportation Fund - To pay transportation costs for boys released from the institution.

Canteen Fund - To operate a non-profit canteen for the benefit of the boys. This is a revolving account used to pay for boys purchases of candy, pop, film, etc.

Trust Fund - To provide a depository for individual boys money. In addition, this fund is designed to account for donations received at Christmas time to allow boys having no income or those receiving no money from home to purchase gifts.

Contingent Fund - To pay travel advances, salary advances and miscellaneous items for which the agency requires ready cash.

The savings account acts as a depository for funds of boys who have left the institution and cannot be located. These funds are retained seven years before reverting to the general fund.

Of the four funds listed above, the institution currently maintains only the Contingent Fund on SBAS. In the prior audit report, the auditors'

recommended that the other three funds be placed on SBAS for control purposes. The institution did not concur with this recommendation because they felt that SBAS did not have the ability to account for funds which were not in the State Treasury. We do not agree with this conclusion since the institution already has one non-treasury cash account under the control of SBAS.

RECOMMENDATION #1

We recommend that the institution place all of the non-treasury cash accounts, with the exception of the Trust Fund and savings account, under the control of SBAS. In addition, we recommend that all boys funds unclaimed for a period of seven years be transferred to the Department of Revenue.

During the course of our examination we reviewed and tested the activity of the four non-treasury checking accounts. We determined that in addition to its stated objectives, the Boy's Trust Fund also accounts for the following funds which are not indicated on the original authorization form.

1. Athletic Fund
2. Athletic Equipment Fund
3. Auto Mechanics Fund
4. Band Fund
5. Chaplain Fund
6. Ken Brown Memorial Fund
7. Cigarette Fund
8. Arts & Crafts (Ceramics) Fund
9. Joseph Lodge Account
10. Judge Loble Fund
11. Special Crafts (Wood) Fund

During the fiscal year ended June 30, 1980, approximately \$12,700 of revenue was deposited to the above listed funds. This revenue consists primarily of gym rental fees, basketball tournament income, sale of arts and crafts, and donations. Expenditures of approximately \$12,700

are for the most part for the benefit of the boys. Certain expenditures for the purchase of athletic equipment and supplies do not have the proper legislative appropriation.

In our opinion, the current system does not clearly reflect the operations of these funds since none of this activity is reported on the Statewide Budgeting and Accounting System (SBAS). In addition, the legislative system is being circumvented, in that income which should be deposited in the general fund and expenditures associated with that income are not subject to legislative scrutiny.

RECOMMENDATION #2

We recommend that the agency re-evaluate its requirements for non-treasury bank accounts and obtain the necessary approvals from the Department of Administration, Accounting Division, Treasury Division and the Investment Board for those accounts which are still deemed appropriate.

RECOMMENDATION #3

We recommend that the Department of Institutions review the various funds maintained by the agency and determine which funds should be established on SBAS.

During our evaluation of the internal controls associated with non-treasury bank accounts we also reviewed the reconciliation procedures employed by the institution. Currently, these reconciliations are being prepared by the same employees who process both the cash receipts and

disbursements of the various funds.

RECOMMENDATION #4

We recommend that the institution segregate the reconciliation procedures of non-treasury accounts from the employees who process the cash receipts and disbursements of the various funds.

Disbursements from the non-treasury accounts are controlled to some degree by the requirement that all checks be signed by two responsible individuals. Our audit procedures showed that in some instances an individual would sign a series of blank checks in the event that they would be away from the office, thus requiring only one signature when the disbursement is made. This procedure circumvents the internal controls associated with dual check signatures.

RECOMMENDATION #5

We recommend that individuals responsible for signing checks from non-treasury bank accounts do not sign blank checks.

Further examination of the non-treasury bank accounts determined that disbursements are not always documented and supported by invoices, expense vouchers, claims or purchase orders. The lack of adequate documentation caused us to limit the amount of testing which could be performed in this area.

RECOMMENDATION #6

We recommend that the institution adequately document and support all expenditures made from the non-treasury bank accounts.

INVENTORY

We reviewed the internal controls associated with inventories maintained by the institution and determined that the controls were adequate to assure that the inventories were properly safeguarded. As of June 30, 1980, however, there was approximately \$45,000 of inventory at the agency which is not under general ledger control. In our opinion, this is a significant amount in terms of the total assets of the agency and should be reflected in the agency's accounting records and financial statements.

RECOMMENDATION #7

We recommend that the institution contact the Department of Administration to establish general ledger controls over inventories.

PLANT, PROPERTY AND EQUIPMENT

We reviewed the internal controls associated with plant, property and equipment and tested the physical controls over the institutions fixed assets. Our review determined that; (1) building records have not been updated for the past three fiscal years, (2) equipment records have not been adequately maintained to determine the additions and deletions which have taken place during fiscal year 1980, (3) fixed assets do not have general ledger control, (4) there is not a complete asset identification system, (5) control procedures do not exist for assets transferred between the various buildings of the institution and (6) periodic physical inventories of fixed assets are not taken.

This situation has been noted in each of the past two audit reports with no substantial corrective action being taken.

In our opinion, the internal controls associated with property, plant and equipment are inadequate and do not provide adequate safeguards for the complete accountability of assets.

RECOMMENDATION #8

We recommend that the institution implement a system of property control and accountability which identifies assets, accounts for additions and deletions, and records transfers of location.

RECOMMENDATION #9

We recommend that the institution establish general ledger (SBAS) control for fixed assets and periodically reconcile the control totals to physical inventories.

During our review of the various buildings of the agency for use and usability, it was found that several of the farm buildings are currently not being used. The potential use of the buildings is questionable considering the condition of the structures. In our opinion, the agency should undertake a review of the farm buildings to determine the future use and associated costs to place the buildings in usable condition. Those buildings that are determined to be unusable should be destroyed or removed

from the property.

RECOMMENDATION #10

We recommend that the institution review unused farm buildings for their potential use and related costs to place them in usable condition.

PAYROLL

The Central Payroll Division of the State Auditor's Office processes the payroll information for Pine Hills School. The Legislative Auditor's Office, during their application review of the central payroll division, has indicated that in order to strengthen payroll procedures, each agency should perform a manual review of its bi-weekly payroll reports to determine the reasonableness of hourly wage rates, reported hours, and bi-weekly gross pay for each employee. In addition, each agency should perform a manual reconciliation of its payroll detail listing and the monthly employee master record in order to assure the accuracy of payroll status forms.

During our review of Pine Hills School's internal controls associated with payroll procedures, we determined that the institution does not maintain current payroll status forms for all employees. The institution also maintains both current and non-current forms within the same files. This could cause the reconciliation procedures recommended by the Legislative Auditor to be difficult to accomplish. In addition,

some of the payroll status forms were found to be misfiled. Management is aware of this problem and has made an attempt to establish proper files for new employees. However, the files of employees who have been at the institution for a number of years should also be reviewed and updated.

RECOMMENDATION #11

We recommend that the institution review its personnel files and update each employee's payroll status forms.

RECOMMENDATION #12

We recommend that the institution perform the various reconciliation procedures as suggested by the Legislative Auditor in his application review of the Central Payroll Division.

Further review of payroll procedures determined that the institution does not maintain longevity records for its current employees. In addition, the employee position register is not kept up to date.

Our review did not reveal any instances where an employee was paid an improper amount. However, it is our opinion that the internal controls of the institution would be strengthened if longevity records and the employee position register were currently maintained.

RECOMMENDATION #13

We recommend that the institution maintain longevity records and an employee position register on a current basis.

EMPLOYEE LEAVE

Pine Hills School utilizes their own system of accounting for employee leave rather than the system designed by the Department of Administration.

We reviewed the internal controls associated with employee leave and found them to be inadequate. Record keeping procedures for compenstory time, vacation and sick leave are weak and do not meet the standards established in the Montana Operational Manual.

We noted several instances where monthly leave records were missing from the files or prepared several months after the period to which they applied. We also noted one instance where a terminated employee was underpaid by ten hours for accrued vacation time due to inadequate record keeping procedures.

Montana regulations allow an employee to accrue a maximum of two times the amount of vacation leave which can be earned in one year. Our review determined that the administrator of the institution had 400 hours of accrued vacation time as of January 1, 1980 whereas the maximum allowed accrual in this instance was 288 hours.

RECOMMENDATION #14

We recommend that the institution review its system of accounting for employee leave and consider utilizing the standarized system established by the Department of Administration.

RECOMMENDATION #15

We recommend that the institution determine which system of accounting for employee leave best fits their circumstances and update their

records and procedures to assure that employee leave is properly accounted for.

RECOMMENDATION #16

We recommend that the institution review the accrued vacation time for each employee and determine if the accrual exceeds the maximum allowed under State law.

RECOMMENDATION #17

We recommend that the institution adopt a formal policy to notify each employee who may be in jeopardy of forfeiting excess vacation accruals.

EMPLOYEE TRAVEL EXPENSE

We reviewed and tested the internal controls associated with employee travel expenses and found them to be adequate. Travel expenditures were well documented and contained the proper authorizations. One weakness which was noted, however, pertains to travel voucher receipts which are not voided upon payment. In our opinion, the internal controls associated with employee travel expenses would be strengthened if travel receipts were voided upon payment. This would reduce the possibility of a double payment being made for the same receipt.

RECOMMENDATION #18

We recommend that the institution initiate a policy of voiding travel voucher receipts upon payment of the claim.

DISPOSITION OF FARM ASSETS

As mentioned in the introductory section of this report, prior to fiscal year 1979-80, Pine Hills School operated a farm program which provided meat, dairy and garden vegetables for consumption at the institution. Due to a declining cost/benefit relationship which had been experienced over the past several years, the program was eliminated. The disposition of the various farm assets took place between March 1, 1979 and June 15, 1979.

We reviewed the disposition procedures which were utilized by the institution and were able to satisfy ourselves, except for several head of swine and milk cows, that the disposition of farm assets was reasonable.

Pine Hills School entered into an agreement with the Montana State Prison to exchange cattle from the school for cut and portioned beef. The school received a total of 3,772 pounds of beef from the prison on May 2, 1979. Since that time the school has paid for all additional beef it has received from the prison. The original agreement indicates that the school was to receive a total of 30,600 pounds of beef from the prison in exchange for its cattle. This means that the school was still entitled to 26,828 pounds of beef as of June 30, 1980. On July 25, 1980 the Department of Institutions processed a no warrant transfer from the prison to Pine Hills School in the amount of \$46,852.00 in an effort to compensate the school for the amount of beef which was still due. Although this amount was not calculated in exact accordance with the original agreement it appears reasonable. This amount is reflected in the 1979-1980 financial statements as current year income to the institution.

In addition to the animals which were transferred to the prison, a considerable number of animals were either butchered or sold. For the most

part, we were able to satisfy ourselves that the disposition of these animals was reasonable. However, we have not been able to satisfy ourselves that all animals were accounted for. Following is a summary of items which we have questioned that have not been resolved:

1. The cattle inventory report as of April 1, 1979 indicates that six milk cows were slaughtered for use at the institution during March of 1979. We compared this with the independent slaughter reports maintained by the butchering department and found that only one cow was butchered during March. We also compared this to the meat inventory records and determined that one butchered cow was placed in the meat inventory during March.
2. The swine inventory report as of April 1, 1979 indicates that 31 swine were slaughtered for use at the institution during March of 1979. We compared this with the independent slaughter reports maintained by the butchering department and found that only 23 animals were butchered during March. We also compared this to the meat inventory records and determined that 15 butchered swine were placed in the meat inventory during March.

We also examined the possibility of a timing difference between the three reports for both the cattle and swine inventories. We eliminated the possibility, however, by agreeing the three reports to one another for the months of February and April of 1979. For this reason, we have been unable to reach a conclusion as to the reasonableness of these transactions. The possibility exists that the differences noted between the cattle inventory, slaughter reports and meat inventory reports is simply due to inadequate

record keeping procedures. However, we have not been able to determine if this is the case or that an impropriety actually did occur.

3. One bull was sold at the Miles City Livestock Center on March 13, 1979 for \$742.17. The proceeds of this sale were paid to the Montana State Prison. As of this time, this amount has not been returned to Pine Hills School.

In addition to reviewing this disposition of farm livestock, we also reviewed the procedures utilized for the disposition of farm equipment and machinery. A majority of the equipment was disposed of through the Surplus Property Department of the Department of Institutions. Transfers were made to the Montana State Prison, Swan River Youth Camp and Fort Keough U.S. Range Experiment Station. Pine Hills School did not receive any reimbursement for the equipment claimed by these agencies. The equipment which remained unclaimed was sold to various individuals on a high bid basis. We reviewed the individual bids and determined that the high bid was accepted in each instance. These funds were then deposited to the agency General Fund. In our opinion, the disposition procedures utilized for the disposition of farm machinery and equipment were reasonable.

FEDERAL GRANTS

We reviewed the internal controls and compliance aspects associated with the receipt and expenditure of federal grant funds by the institution. Our review determined that both the receipt and expenditure of federal grant funds are properly classified and comply with the applicable rules and regulations.

CONCLUSION

Included in the body of this report are eighteen recommendations designed to improve the internal controls associated with various aspects of Pine Hills School. We did not make any recommendations regarding the disposition of farm assets since it would not be possible to implement them at this time.

We would like to thank the administration of Pine Hills School for their cooperation and consideration which they extended to us throughout the course of our examination.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

The Legislative Audit Committee
of the Montana State Legislature

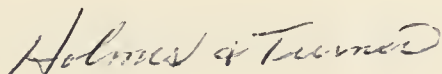
We have examined the balance sheet of Pine Hills School as of June 30, 1980 and the related statement of revenues, expenditures and changes in fund balances for the fiscal year then ended. Except as explained in the following paragraphs, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Notes 2 and 6 to the financial statements, Pine Hills School carries its general fixed assets at cost or assigned value for assets acquired prior to June 30, 1976. This differs from generally accepted accounting principles which require fixed assets to be recorded at cost or estimated original cost if the cost is not practicably determinable. In addition, additions and deletions which have occurred since July 1, 1976 have not been recorded in a manner which allows for the accurate preparation of a schedule of changes in general fixed assets. Because we were unable to satisfy ourselves by appropriate audit tests or by other means, due to a lack of historical records, we are unable to express an opinion on the General Fixed Asset Account Group reflected on the accompanying financial statements.

Due to a lack of supporting documentation, we could not perform the audit work necessary to determine the propriety of employee leave records. Because we have been unable to satisfy ourselves by appropriate audit tests or by other means, we have been unable to determine the effects if any, that employee leave has upon the accompanying financial statements.

In our opinion, the accompanying financial statements except for the General Fixed Asset Account Group and except for the effects, if any, of the matter discussed in paragraph 3 of this opinion, present fairly the financial position of the various funds of Pine Hills School at June 30, 1980 and the results of operations of such funds for the fiscal year then ended in conformity with generally accepted accounting principles applied on a consistent basis.

The accompanying schedule of Expenditures by Object, Supplemental Information and the column on the accompanying Balance Sheet and Statement of Revenue, Expenditures, and Changes in Fund Balances captioned "Memorandum Only", are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data. This information has been subjected to the tests and other auditing procedures applied in the examination of the accompanying financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole except as this information relates to the circumstances stated in paragraphs 2 and 3 of this opinion.



October 9, 1980
Bozeman, Montana

PINE HILLS SCHOOL
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1980

	<u>Governmental Funds</u>		
		<u>Special Revenue Funds</u>	
	<u>General Fund</u>	<u>Insurance Clearance Fund</u>	<u>Federal and Private Revenue Fund</u>
<u>ASSETS</u>			
Cash in Bank			
Revolving Fund Cash	\$ 1,000		
Cash in Treasury		\$28,781	\$26,124
Expense Advances to Employees	26		
Appropriation Authority Available to			
Pay Accrued Expenditures	136,853		
General Fixed Assets			
Accounts Receivable			
Total Assets	<u>\$137,879</u>	<u>\$28,781</u>	<u>\$26,124</u>
<u>LIABILITIES AND FUND BALANCES/ RETAINED EARNINGS</u>			
Accrued Expenditures	\$137,879	\$ 9,816	\$19,163
Due to Boys			
Total Liabilities	<u>137,879</u>	<u>9,816</u>	<u>19,163</u>
Investment in General Fixed Assets			
Fund Balance/Retained Earnings	<u>-0-</u>	<u>18,965</u>	<u>6,961</u>
Total Liabilities, Reserve and Fund Balance/Retained Earnings	<u>\$137,879</u>	<u>\$28,781</u>	<u>\$26,124</u>

See accompanying notes to financial statements.

Fiduciary FundAccount Groups

<u>Agency Fund (Note 7)</u>	<u>General Fixed Assets (Note 6)</u>	<u>Total (Memorandum Only) June 30, 1980</u>
\$9,261		\$ 9,261 1,000 54,905 26
		136,853
268	\$4,806,122	4,806,122 268
<u>\$9,529</u>	<u>\$4,806,122</u>	<u>\$5,008,435</u>
\$5,385		\$ 166,858 5,385
5,385	-0-	172,243
4,144	4,806,122	4,806,122 30,070
<u>\$9,529</u>	<u>\$4,806,122</u>	<u>\$5,008,435</u>

PINE HILLS SCHOOL
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 1980

	<u>General Fund</u>			<u>Special Revenue</u> <u>Insurance Clearance Fund</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:						
Sale of Property	\$ 500	\$ 47,829	\$ 47,329			
Meals	2,200	25	(2,175)			
Housing	1,800	1,350	(450)			
Insurance Reimbursement				\$ 5,437	\$20,135	\$14,698
Leases, Rentals, Interest and Transfers						
Federal Assistance						
Total Revenues	<u>4,500</u>	<u>49,204</u>	<u>44,704</u>	<u>5,437</u>	<u>20,135</u>	<u>14,698</u>
EXPENDITURES:						
Superintendent	44,747	46,142	(1,395)			
Medical Services	117,736	114,718	3,018			
Administration	217,802	174,679	43,123	22,349	19,773	2,576
Care and Custody	757,961	780,048	(22,087)			
Developmental Services	<u>496,099</u>	<u>471,645</u>	<u>24,454</u>			
Total Expenditures	<u>1,634,345</u>	<u>1,587,232</u>	<u>47,113</u>	<u>22,349</u>	<u>19,773</u>	<u>2,576</u>
Excess of Current Revenues over (Under) Current Expenditures	(1,629,845)	(1,538,028)	91,817	(16,912)	362	17,274
Other Financing Sources (Uses)						
Prior Year Adjustments	65,415	65,415	-0-	-0-	-0-	-0-
Support From (To) the General Fund	<u>1,564,430</u>	<u>1,472,613</u>	<u>(91,817)</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Excess of Revenues Over (Under) Expenditures and Other Sources (Uses)	-0-	-0-	-0-	(16,912)	362	17,274
Fund Balances July 1, 1979	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>18,603</u>	<u>18,603</u>	<u>-0-</u>
Fund Balances June 30, 1980	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,691</u>	<u>\$18,965</u>	<u>\$17,274</u>

See accompanying notes to financial statements.

<u>Special Revenue</u>			<u>Totals</u>		
<u>Federal and Private Revenue Fund</u>			<u>(Memorandum Only)</u>		
<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
			\$ 500	\$ 47,829	\$ 47,329
			2,200	25	(2,175)
			1,800	1,350	(450)
			5,437	20,135	14,698
\$ -0-	\$457,647	\$457,647	-0-	457,647	457,647
<u>228,371</u>	<u>177,073</u>	<u>(51,298)</u>	<u>228,371</u>	<u>177,073</u>	<u>(51,298)</u>
<u>228,371</u>	<u>634,720</u>	<u>406,349</u>	<u>238,308</u>	<u>704,059</u>	<u>465,751</u>
			44,747	46,142	(1,395)
			117,736	114,718	3,018
512,720	531,111	(18,391)	752,871	725,563	27,308
23,882	3,280	20,602	781,843	783,328	(1,485)
<u>103,643</u>	<u>95,720</u>	<u>7,923</u>	<u>599,742</u>	<u>567,365</u>	<u>32,377</u>
<u>640,245</u>	<u>630,111</u>	<u>10,134</u>	<u>2,296,939</u>	<u>2,237,116</u>	<u>59,823</u>
(411,874)	4,609	416,483	(2,058,631)	(1,533,057)	525,574
(80,397)	(80,397)	-0-	(14,982)	(14,982)	-0-
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,564,430</u>	<u>1,472,613</u>	<u>(91,817)</u>
(492,271)	(75,788)	416,483	(509,183)	(75,426)	433,757
<u>82,749</u>	<u>82,749</u>	<u>-0-</u>	<u>101,352</u>	<u>101,352</u>	<u>-0-</u>
<u>\$ (409,522)</u>	<u>\$ 6,961</u>	<u>\$416,483</u>	<u>\$ (407,831)</u>	<u>\$ 25,926</u>	<u>\$ 433,757</u>

PINE HILLS SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1980

NOTE 1. ORGANIZATION

Pine Hills School is an agency of the State of Montana. Its operations are recorded in the following funds:

General Fund

The General Fund is an appropriated fund used to account for all revenue and expenditures not included in any of the other funds of the institution. The General Fund of Pine Hills School is a sub-entity of the Statewide General Fund. The General Fund as disclosed in the accompanying financial statements represents that portion of the Statewide General Fund administered by Pine Hills School. At year end, any remaining cash balance is transferred to the Statewide General Fund.

Insurance Clearance Fund

The Insurance Clearance Fund is an appropriated fund used to account for insurance reimbursements and losses due to such things as hail and riot damage.

Federal and Private Revenue Fund

The Federal and Private Revenue Fund accounts for such things as federal revenue sharing monies received from the State as a secondary recipient, and interest and income from the land grant given to the State under the Enabling Act. The land given to the State under the Enabling Act and all monies received from the sale of these lands are held as permanent funds in the Legacy and Trust Fund which is administered by the Department of State Lands. Actual income from this portion of the Legacy and Trust Fund is made available for the maintenance and support of Pine Hills School. In addition to these objectives, the Federal and Private Revenue Fund also accounts for all other governmental grants received by the institution.

Agency Fund

This fund reflects the amount of cash and corresponding liability for amounts held by the institution for the boys committed to Pine Hills School. This fund is not included in the Statewide Budgeting and Accounting System. (SBAS)

General Fixed Assets Account Group

This accounts for the general fixed assets of Pine Hills School. This account group is not included in SBAS.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The preceding financial statements with the exception of the Agency Fund and General Fixed Asset Account Group, were prepared from the Statewide Budgeting and Accounting System (SBAS). The State of Montana utilizes the modified accrual basis of accounting. Modified accrual is defined as, "that method of accounting in which expenditures are recorded on the basis of valid obligations and revenues recorded when received in cash."

Fund Accounting

The accounts are organized on the basis of funds and account groups, each of which is considered to be a separate accounting entity. The operations of each fund and account group are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance, revenue and expenditures.

Inventories

Inventories are expensed at the time of purchase. At June 30, 1980 there was approximately \$45,000 of inventory which is not reflected in the accompanying financial statements.

General Fixed Assets

Pine Hills School did not maintain an adequate record of its general

fixed assets prior to June 30, 1976. In addition, fixed asset records have not been adequately maintained since that time. Assets purchased are recorded as expenditures in the various funds during the year of purchase or encumbrance.

Assets are recorded in the account group at historical cost or assigned value if the original cost is not available.

Depreciation is not provided on general fixed assets.

Vacation and Sick Pay

Liabilities incurred because of unused vacation and sick pay by employees are not recorded. The related expenditure is recorded when paid. Permanent employees are allowed to accumulate and carryover a maximum of two years vacation into a new calendar year. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive payment for vacation on a 100 percent basis and sick leave on a 25 percent basis of their current hourly rate. The amount of the unrecorded liability on the accompanying financial statements as of June 30, 1980 was not readily determinable.

NOTE 3. RETIREMENT PLAN

The State of Montana has two contributory retirement plans covering substantially all employees of Pine Hills School. Instructional employees are eligible for the Teachers Retirement System and other employees are eligible for the Public Employees Retirement System. The unfunded past service costs and the actuarially computed value of the vested benefits are not readily available for the members of the plans employed by Pine Hills School.

NOTE 4. ACCOUNTS NOT REFLECTED ON THE STATEWIDE BUDGETING AND ACCOUNTING SYSTEM

The cash in the agency fund represents primarily cash held in trust for the boys committed to Pine Hills School. This cash and the corresponding liability are not recorded in the Statewide Budgeting and Accounting System, but have been reflected in the financial statements for reporting purposes.

The general fixed asset account group is not recorded in the Statewide Budgeting and Accounting System but has been reflected in the financial statements for reporting purposes.

NOTE 5. CAPITAL PROJECTS

The Architecture and Engineering Division of the Department of Administration is responsible for the planning, construction and administration of appropriations for buildings and building modifications at Pine Hills School. The cost of buildings constructed at Pine Hills School is recorded in the school's general fixed asset account group when the project is completed. Capital projects at Pine Hills School during the fiscal year ended June 30, 1980 are as follows:

<u>Project</u>	<u>Amount of Appropriation</u>	<u>Prior to July 1, 1979</u>	<u>Expended Fiscal Year 1980</u>	<u>Total</u>
Roof administration building	\$ 54,806	\$ 2,508	\$ 51,699	\$ 54,207
New boys lodge	795,000	213,536	578,277	791,813
Roof replacement	75,000	-	17,593	17,593
Waterline and boiler replacement	182,620	-	15,656	15,656
New cottage	967,000	-	-	-
Roof repair (Hail damage)	8,613	-	8,613	8,613
	<u>\$2,083,039</u>	<u>\$216,044</u>	<u>\$671,838</u>	<u>\$887,882</u>

NOTE 6. FIXED ASSETS

Prior to June 30, 1976, Pine Hills School did not maintain a record of its general fixed assets. At June 30, 1976, the school inventoried all of its fixed assets, however, those records have not been adequately maintained. In addition, the accounting records are not adequate to ascertain the actual cost

of many assets acquired prior to June 30, 1975. Following is a schedule of the additions and deletions of fixed assets which appear in the records of Pine Hills School during fiscal year 1980. This schedule is not all inclusive of the actual activity however.

	<u>Land</u>	<u>Buildings</u>	<u>Furniture and Equipment</u>	<u>Total</u>
Balance July 1, 1979	\$233,679	\$3,456,334	\$434,642	\$4,124,655
Additions			22,425	22,425
Additions from capital projects		671,559		671,559
Retirement and other			(12,517)	(12,517)
Balance June 30, 1980	<u>\$233,679</u>	<u>\$4,127,893</u>	<u>\$444,550</u>	<u>\$4,806,122</u>

NOTE 7. AGENCY FUND

The cash in the Agency Fund primarily represents cash held in trust for the boys committed to Pine Hills School. Additional cash from a transportation fund and canteen fund are also reflected. Following is a summary of the cash amounts which comprise the Agency Fund on the accompanying financial statements.

Boys Fund	\$8,312
Transportation Fund	45
Canteen Fund	<u>904</u>
Total Agency Fund Cash - June 30, 1980	<u>\$9,261</u>

In addition, following is a schedule of activity through the Boys Fund during fiscal year 1980 and a summary of individual fund balances which comprise the cash balance of the Boys Fund as of June 30, 1980.

Boys Fund Schedule of Activity

Balance, July 1, 1979	\$ 9,407.83
Deposits	57,307.38
Withdrawals	<u>(58,403.52)</u>
Balance, June 30, 1980	<u>\$ 8,311.69</u>

Schedule of Funds Which Comprise Boys Fund Cash Balance

<u>Fund</u>	<u>June 30, 1980</u>
Photo Fund	\$ (28.29)
Athletic Fund	922.95
Athletic Equipment Fund	422.58
Auto Mechanics Fund	204.97
Band Fund	12.82
Boys Gift Fund	97.38
Chaplain Fund	116.85
Ken Brown Memorial Fund	56.04
Cigarette Fund	317.65
Arts and Crafts Fund	264.56
Joseph Lodge Account	48.15
Judge Loble Fund	3.98
Special Crafts Fund	486.95
Boys Accounts	3,069.78
Non-Current Boys Accounts - Checking	913.72
Non-Current Boys Accounts - Savings	<u>1,401.60</u>
	<u>\$8,311.69</u>

None of the information presented in the above schedules is reflected in the Statewide Budgeting and Accounting System, however, it has been reflected in the accompanying financial statements for informational purposes.

NOTE 8. EMPLOYEE LEAVE

The employee leave records maintained by Pine Hills School do not adequately reflect the amounts of leave used by each employee. For this reason, we have been unable to determine the effects upon the accompanying financial statements for the fiscal year ended June 30, 1980.

NOTE 9. PRIOR PERIOD INCOME AND EXPENSE

Pine Hills School journal vouchered cash from the Federal and Private Revenue Fund to the General Fund using the prior period income and expense accounts to reflect the transaction. The purpose of the journal entry was to reduce the General Fund expenditures while increasing the Federal and Private Revenue account expenditures. The transaction should have been accomplished by increasing the appropriation for the Federal and Private Revenue Fund and decreasing the General Fund appropriation. The transaction involved \$68,455.00 and has no effect on the revenue or expenses of the agency.

PINE HILLS SCHOOL
SCHEDULE OF EXPENDITURES BY OBJECT
FOR THE FISCAL YEAR ENDED JUNE 30, 1980

<u>Expenditure Object</u>	<u>Superintendent</u>	<u>Medical Services</u>	<u>Administration</u>
Personal Services			
Salaries	\$39,519	\$ 73,507	\$319,403
Employee Benefits	<u>6,623</u>	<u>13,765</u>	<u>63,922</u>
Total Personal Services	<u>46,142</u>	<u>87,272</u>	<u>383,325</u>
Operating Expenses			
Contracted Services		27,446	12,311
Supplies and Material			186,374
Communications			20,105
Travel			
Rent			4,706
Utilities			72,203
Repairs and Maintenance			39,670
Other Expenses	<u> </u>	<u> </u>	<u>2,757</u>
Total Operating Expenses	<u>-0-</u>	<u>27,446</u>	<u>338,126</u>
Equipment	<u>-0-</u>	<u>-0-</u>	<u>4,112</u>
Total Expenditures	<u>\$46,142</u>	<u>\$114,718</u>	<u>\$725,563</u>

<u>Care and Custody</u>	<u>Developmental Services</u>	<u>Total</u>
\$637,496	\$466,306	\$1,536,231
<u>131,172</u>	<u>90,483</u>	<u>305,965</u>
<u>768,668</u>	<u>556,789</u>	<u>1,842,196</u>
		39,757
	1,355	187,729
		20,105
4,031	8,172	12,203
		4,706
		72,203
		39,670
<u>7,644</u>	<u>703</u>	<u>11,104</u>
<u>11,675</u>	<u>10,230</u>	<u>387,477</u>
<u>2,985</u>	<u>346</u>	<u>7,443</u>
<u>\$783,328</u>	<u>\$567,365</u>	<u>\$2,237,116</u>

AGENCY REPLIES



THOMAS L. JUDGE, GOVERNOR

1539 ELEVENTH AVENUE

STATE OF MONTANA

(406) 449-3930

HELENA, MONTANA 59601

October 29, 1980

Legislative Audit Committee
of the Montana State Legislature
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Gentlemen:

We have reviewed the audit report prepared by Holmes and Turner, Certified Public Accountants, of the Pine Hills School.

The report provides a very welcome service and is sincerely appreciated. Our response to recommendations is attached.

Sincerely,

A handwritten signature in dark ink, appearing to read "Lawrence M. Zanto".

Lawrence M. Zanto
Director

LMZ:jw

Attachment

PINE HILLS AUDIT RECOMMENDATIONS AND RESPONSES

CASH ACCOUNTS

Recommendation #1

We recommend that the institution place all of the non-treasury cash accounts, with the exception of the Trust Fund and savings account, under the control of SBAS. In addition, we recommend that all boys funds unclaimed for a period of seven years be transferred to the Department of Revenue.

Response #1

Pine Hills concurs with this recommendation for the Canteen Fund. The Department of Administration will be contacted to determine if the Transportation Fund can be recorded on SBAS without depositing the money in the State's Treasury. Pine Hills will analyze the unclaimed boys funds and transfer those seven years old to the Department of Revenue.

Recommendation #2

We recommend that the agency re-evaluate its requirements for non-treasury bank accounts and obtain the necessary approvals from the Department of Administration, Accounting Division, Treasury Division and the Investment Board for those accounts which are still deemed appropriate.

Response #2

Pine Hills concurs with this recommendation.

Recommendation #3

We recommend that the Department of Institutions review the various funds maintained by the agency and determine which funds should be established on SBAS.

Response #3

The Department of Institutions will evaluate the funds maintained by Pine Hills and determine if any should be recorded in SBAS. This will be done with the assistance of the Department of Administration (see Response #1.)

Recommendation #4

We recommend that the institution segregate the reconciliation procedures of non-treasury accounts from the employees who process the cash receipts and disbursements of the various funds.

Response #4

Pine Hills concurs with this recommendation. This procedure has been implemented.

Recommendation #5

We recommend that individuals responsible for signing checks from non-treasury bank accounts do not sign blank checks.

Response #5

Pine Hills concurs with this recommendation.

Recommendation #6

We recommend that the institution adequately document and support all expenditures made from the non-treasury bank accounts.

Response #6

Pine Hills concurs with this recommendation. Procedures have been implemented to ensure proper supportive documentation for all transactions.

INVENTORY

Recommendation #7

We recommend that the institution contact the Department of Administration to establish general ledger controls over inventories.

Response #7

Pine Hills concurs with the recommendation. The Department of Administration will be advised of this recommendation and assistance requested from them to comply with the recommendation.

PLANT, PROPERTY AND EQUIPMENT

Recommendation #8

We recommend that the institution implement a system of property control and accountability which identifies assets, accounts for additions and deletions, and records transfers of location.

Response #8

Pine Hills concurs with this recommendation. The agency currently has a system of property control and accountability which identifies assets, accounts for additions and deletions, and records transfers of location. The system is new, and total implementation has not been accomplished due to the magnitude of the task and limited manhours available to effect total implementation.

Recommendation #9

We recommend that the institution establish general ledger (SBAS) control for fixed assets and periodically reconcile the control totals to physical inventories.

Response #9

Pine Hills concurs with this recommendation. The agency, Department of Institutions, and the Department of Administration Accounting Division will cooperatively determine the most relevant application of existing systems (PAMS, SIMS, RAS, ABARS) to provide general ledger controls for inventories.

Recommendation #10

We recommend that the institution review unused farm buildings for their potential use and related costs to place them in usable condition.

Response #10

Pine Hills concurs with this recommendation. This has been done, however, this recommendation has a low priority by the Department when seeking Long Range Building Funds.

PAYROLL

Recommendation #11

We recommend that the institution review its personnel files and update each employee's payroll status forms.

Response #11

Pine Hills concurs with this recommendation. This is currently being implemented.

Recommendation #12

We recommend that the institution perform the various reconciliation procedures as suggested by the Legislative Auditor in his application review of the Central Payroll Division.

Response #12

Pine Hills concurs with this recommendation.

Recommendation #13

We recommend that the institution maintain longevity records and an employee position register on a current basis.

Response #13

Pine Hills concurs with this recommendation. This is in progress.

EMPLOYEE LEAVE

Recommendation #14

We recommend that the institution review its sytem of accounting for employee leave and consider utilizing the standardized system established by the Department of Administration.

Response #14

Pine Hills concurs with this recommendation.

Recommendation #15

We recommend that the institution determine which system of accounting for employee leave best fits their circumstances and update their records and procedures to assure that employee leave is properly accounted for.

Response #15

Pine Hills concurs with this recommendation. The Department of Institutions will assist Pine Hills with this recommendation.

Recommendation #16

We recommend that the institution review the accrued vacation time for each employee and determine if the accrual exceeds the maximum allowed under State law.

Response #16

Pine Hills concurs with this recommendation.

Recommendation #17

We recommend that the institution adopt a formal policy to notify each employee who may be in jeopardy of forfeiting excess vacation accruals.

Response #17

Pine Hills concurs with this recommendation.

EMPLOYEE TRAVEL EXPENSE

Recommendation #18

We recommend that the institution initiate a policy of voiding travel voucher receipts upon payment of the claim.

Response #18

Pine Hills does not concur with this recommendation. Receipts have to accompany the transfer - Warrant claim in order for the employee to be reimbursed for travel expenses. This and the fact that the travel reimbursement has to be approved by the employee's supervisor is ample control to insure no duplicate payment. The audit did not disclose any duplicate payment so the present system appears to be adequate.

